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TAGS: [ECON](#) [ENRG](#) [PREL](#) [EFIN](#) [DR](#)
SUBJECT: DOMINICAN ELECTRICITY SERIES #3: FINISH WHAT YOU
STARTED OR FACE MORE LOSSES

REF: A. 06 SANTO DOMINGO 3285

[1](#)B. 06 SANTO DOMINGO 3387

(SBU) 1. This is the third cable of a series on the politics
surrounding the electricity sector and why politics and not
economics is the cause of the electricity crisis in the
Dominican Republic.

WHY SEGURA IS JUST PLAIN WRONG

(U) Less than two weeks after the government demanded a
renegotiation of its financial contracts with the private
generation companies, leading newspapers published damaging
reports about the parastatal electric company's (CDEEE) poor
management, high expenditures, and continued electricity
losses.

(SBU) CDEEE Vice-chair Rhadames Segura prefers to point the
finger at the private sector and the financial contracts,
such as the Madrid Accord, as cause for the electricity
crisis. Segura says that the contracts are the root cause
for the high level of collection losses, corruption, and
theft. According to Segura, the high price of electricity
dissuades businesses and households from paying their
electricity bills, forces the government to subsidize the
sector, and results in theft within the sector. He does not
note that before these contracts were signed, the electricity
sector suffered from similar levels of corruption, theft, and
collection losses.

(U) Technical Secretary Temistocles Montas has strongly
advocated privatization of the sector. His office recently
published a report titled The Energy Monitor, examining
electricity losses in the sector. In contrast to Segura's
claim, the report finds that the main cause for the
electricity crisis is found in the distribution sector, where
CDEEE manages 2 of the 3 regional companies. It has a 49
percent stake in the third distributor-Ede Este (reftel B).
In the first half of 2006, the report reveals, the
distribution sector sustained losses of 44 percent, including
technical losses of about 6-8 percent. More striking is the
breakdown of the losses: distributors charged their end-users
only 64 percent of the amount of electricity the distributors
bought from the generators; of that 64 percent, distributors

collected only 87 percent. Resulting electricity losses of 44 percent cost the government millions of dollars, create instability in the investment sector, and are evidence of the vast amounts of theft and corruption within the sector.

(U) The Technical Secretary's report further explores the distributors' fat contribution to the high price of electricity. The generators charge the distributors an average of 11 cents per kilowatt-hour (KWH). Distributors then add an additional 10 cents per KWH for charges to the end-user. This distribution charge is called value added distribution. It grossly exceeds the international standard of 5 cents per KWH.

(U) The report mirrors the political row between Segura and Montas. It strongly suggests that a renegotiation of the contracts would reduce by only a fraction the annual losses of the distribution sector (reftels A and B).

(SBU) Further, CDEEE's mid-year performance report shows a negative cash flow of USD 42 million. Topping the list of expenditures is CDEEE's payroll, accounting for 70 percent of its operational costs.

(SBU) As described earlier in this series, Segura continues to push for more government presence in the electricity sector. In early October 2006, CDEEE proposed a draft law to Fernandez and received fierce pushback from Montas. In addition to increasing CDEEE's control of the electricity sector and creating more senior level government positions within CDEEE, Segura's proposal stipulated that the salaries of CDEEE's executive committee should be commensurate to private sector executive salaries. Rumors are that Montas and Segura engaged in a fierce verbal debate in the government-only meeting.

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COMMENT: FINISH THE JOB
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(U) Some areas within the country offer models for privatization. In the resort areas of Punta Cana, Bavarro, and Las Terenas, the electricity supply is completely private. These resort areas and their local communities respond with collection rates of at least 95 percent. The methodology is simple: "If you don't pay, you don't get electricity." The result is 24/7 electricity. AES, through its management of regional distributor EdeEste, participates in the rationing of supply in conformity with CDEEE instructions, but it is providing 24/7 electricity to those towns where the cost recovery index is 85 percent or higher. The recently announced program, called "La Esperanza" (Hope), has just awarded two towns east of Santo Domingo with uninterrupted electricity.

(SBU) Temistocles Montas appears to be the only high-ranking government official who wants to finish what the government started under the first Fernandez administration. Incompetent management, a lack of political will, ambition and greed fuel CDEEE's desire to increase its role in the electricity sector, a move likely to increase electricity losses and government debt. At 26 months into the second Fernandez administration, the only movement in the electricity sector has been backwards.

12. (U) Drafted by Chris Davy.

13. (U) This report and extensive other material can be consulted on our SIPIRNET site,
<http://www.state.sg.gov/p/wha/santodomingo/> .
HERTELL